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OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF CONSUMER & INDUSTRY SERVICES
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COMMISSIONER

DATE: June 23, 2005

LETTER NO.: 2005-CU-12

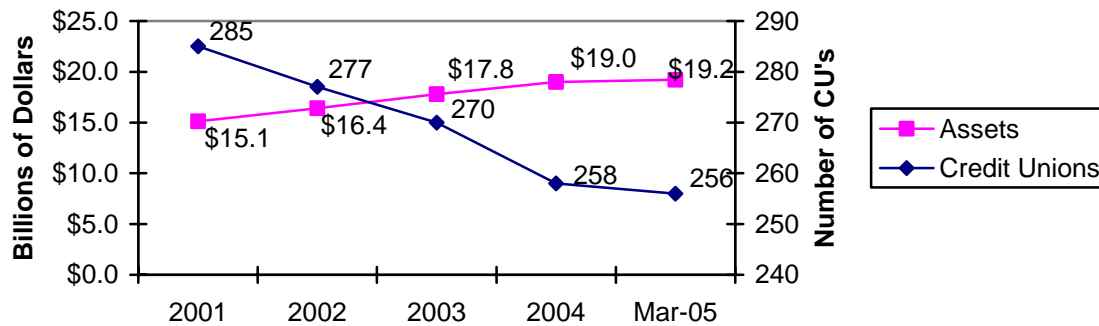
TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

SUBJECT: 2005 First Quarter Financial Results

The Office of Financial and Insurance Services (OFIS) compiles call report information to monitor Michigan state-chartered credit unions, both individually, and in the aggregate. The purpose of this letter is to share some overall industry trends and highlight certain areas of particular concern based on the March 31, 2005 call report filings. The following information and analysis does not include CenCorp Credit Union.

Consolidation Continues

The number of Michigan state-chartered credit unions declined by two during the first quarter of 2005. Aggregate asset growth remained stable at 5.31% for the quarter.

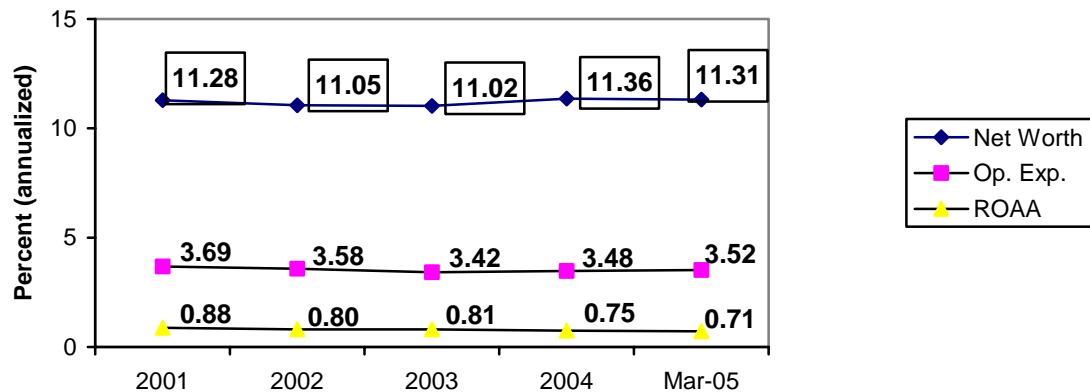


The number of credit unions reporting a decline in assets greater than 5% dropped from 27 at year-end 2004 to 21 at March 31, 2005.

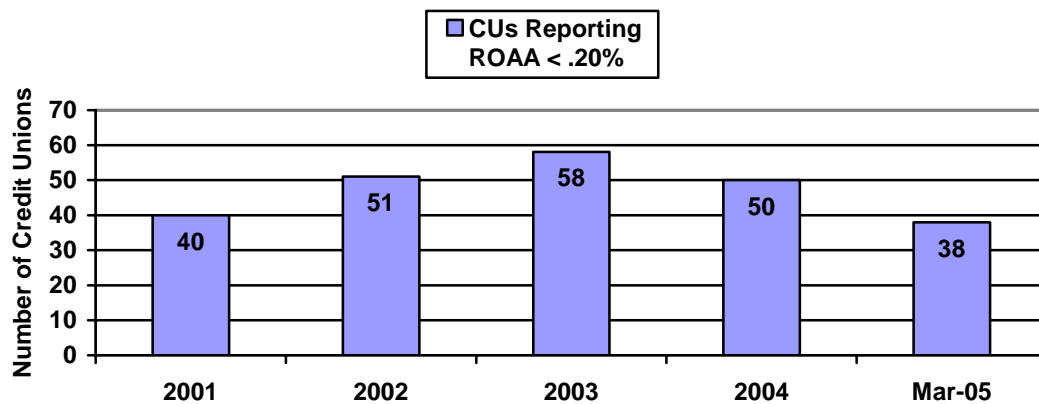
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Net Worth Remains Strong

Aggregate net worth and return on average assets ratios declined slightly from December 31, 2004, primarily due to a slight increase in operating expenses.



While aggregate earnings ratios showed a slight decline, significant individual improvement was noted. The number of credit unions reporting an ROAA of less than .20% declined considerably during the first quarter of 2005. There are now 38 credit unions reporting an ROAA of less than .20%, down from 50 at year-end 2004.



Interest rate risk management continues to be crucial. Lagging interest rates prolong the possibility of rapid increases in rates. Management must diligently monitor and manage interest rate risk while improving asset yields.

Asset Quality Remains Sound

The aggregate delinquency and net charge-off ratios declined slightly to 0.97% and 0.53% (respectively) during the quarter. The number of credit unions reporting adverse trends in these areas declined as well during the first quarter of 2005.

Conclusion

Overall, the financial condition of Michigan state-chartered credit unions remains strong. Earnings remain relatively stable, but the net interest margin continues to be impacted by the current rising interest rate environment. Combined with the increasing complexity of products offered by credit unions, interest rate risk exposure continues to be a regulatory concern going forward. Appropriate measurement and control of this risk will be crucial to future earnings.

Directors and management teams must monitor the financial condition of their credit union on an ongoing basis. Sound risk management includes timely identification of potential risks and adverse trends, and taking appropriate steps to ensure risks are properly managed.

I hope the information in this letter is helpful in making informed business decisions. Operating a financial institution safely and soundly requires diligence in risk identification, measurement, and management. The stresses evident in the March 2005 statistics highlight the continuing need for sound risk management practices.

Sincerely,

Roger W. Little, Deputy Commissioner
Credit Union Division